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C O N F I D E N T I A L AMMAN 003640

SIPDIS

TREASURY FOR A/S QUARLES, DAS RADELET, MICHAEL KAPLAN
DEPT FOR E, NEA, EB
NSC FOR CLAY LOWERY

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TAGS: EFIN JO

SUBJECT: JORDAN: FS STRAW LETTER TO G7 ON JORDAN DEBT

REF: AMMAN 03617 AND PREVIOUS

Classified By: DCM Greg Berry, reasons 1.5(b,d)

11. (c) As reported reftel, the following is the text of the UK Foreign Secretary's June 14, 2002 letter to G7 colleagues. This text was provided to us on July 3.

12. (c) Begin text:

&I am writing to ask for your continuing support for Jordan their discussions with the IMF and Paris Club Creditors. Now is an important time for us all to demonstrate our support for a key ally in the coalition against terrorism and a force for stability in an unstable region.

Jordan,s economic performance remains blighted, and social problems exacerbated, but regional tensions which impede its trade with the West Bank and Israel on the one hand and Iraq on the other. Recent events in the West Bank have not made things any easier.

In these difficult circumstances I believe King Abdullah is continuing to show strong economic leadership. His Plan for Social and Economic Transformation, announced last autumn, is a serious attempt to push forward with structural reforms) building on Jordan,s already good record) while finding some new resources to ease social problems. It is clear that the Plan is not going to be allowed to compromise sound macroeconomic management: spending this year is being tailored to available resources while the authorities have announced new, politically sensitive, revenue raising measures. I was struck by the warmth of the endorsement of Jordan,s policies given in discussion in the latest IMF report.

Jordan,s good economic management will produce its own reward in the form of strong performance once normal relations with its neighbours are possible. But in the meantime Jordan is labouring under difficulties which are not of its own making and I believe the King deserves our support. As you know, discussions between the IMF and the Jordanian authorities on a new programme are advancing. Policy measures in the programme are likely to be consistent with the King,s Plan for Social and Economic Transformation, while extra resources from the Fund may have a role to play in allowing the Plan to go ahead, and social issues to be addressed, more rapidly. This will be particularly important in the forthcoming election year. If the IMF Staff make a good case for further IMF lending we will be favourably disposed to support; I hope you will also.

If a new IMF programme is agreed Jordan may well seek a further rescheduling from the Paris Club. If so, I believe creditors can and should help. The British Government is willing to press for the most generous possible rescheduling. We would hope that this would be the last time Jordan would need to come to the Paris Club. We have an open mind on how this exit from the rescheduling cycle might be achieved, but for instance if Jordan, supported by the IMF, judged that a full stock rescheduling was in its long term interests we would be supportive. Furthermore the UK has already been actively promoting conversion to equity of official Jordanian debt to the UK, within existing Paris Club rules; we would not only encourage others to do the same but would support any Jordanian request to raise the current threshold.

I would welcome your views on this matter and how we can take it forward well in advance of any discussions in the Paris Club.

I am copying this letter to G7 colleagues8.
Gnehm